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Programmes of action for Asia-Pacific least developed countries, landlocked developing countries and small island developing States and the Sustainable Development Goals: prospects for poverty reduction in Asia and the Pacific: progress, opportunities and challenges, especially in countries with special needs

Prospects for poverty reduction in Asia and the Pacific: progress, opportunities and challenges, especially in countries with special needs

Note by the secretariat

Summary

The countries with special needs in the region (comprising least developed countries, landlocked developing countries and small island developing States) continue to face daunting structural impediments to reducing poverty and achieving inclusive and sustainable development. These impediments have prevented them from harnessing their development potential and have kept them on the periphery of dynamic regional and global economic growth. As recognized in the 2030 Agenda for Sustainable Development, the Programme of Action for the Least Developed Countries for the Decade 2011-2020, the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 and the SIDS Accelerated Modalities of Action (SAMOA) Pathway, countries with special needs, with support from their development partners, can overcome many of these structural challenges and reduce poverty further, thus putting themselves on the path of inclusive and sustainable development.

Given slower growth in global trade and investment, countries with special needs by and large can no longer rely on inexpensive labour and the export of low value added products, which are often unprocessed natural resources, to sustain economic growth and lift people out of poverty. Rather, forward-looking policy measures and strategies are needed, with policy options prioritized according to individual country development objectives, capabilities and opportunities. To eradicate poverty, countries must embark on a transition to a productivity-led economic growth strategy that is supported by skilled human resources, quality institutions, good governance, efficient and productive infrastructure, climate-informed decisions, and functioning capital and labour markets, within the overall context of sustaining peace and security. Greater priority must be given to tackling social exclusion through supportive social protection measures and other efforts that complement economic policies.

The Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development is invited to discuss and deliberate on the contents of the present document and to provide further guidance to the secretariat on areas and/or policies for analysis and focus to facilitate the efforts of member States to reduce poverty.

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I. Introduction

1. The Asia-Pacific region has experienced considerable development advancements since the 1960s. One of the most significant achievements has been a steady decline in the number of people living in absolute poverty during the past three decades. However, despite the overall positive trends, the region has seen some setbacks and retrenchment in development progress, conditioned by international factors.

2. With the adoption of the United Nations Millennium Declaration in 2000, the global community began a systematic monitoring of the incidence of income poverty and, by the time the global community made the transition to the 2030 Agenda for Sustainable Development, income poverty had fallen significantly. For the period 2010-2013, the poverty rate, or the proportion of people living in extreme poverty (on less than $1.90 per day in 2011 purchasing power parity terms), in the Asia-Pacific region declined to 10.3 per cent of the total population, from the 29.7 per cent rate for the period 2000-2004. In the case of the least developed countries, however, the proportion of people living in extreme poverty was still 14.7 per cent for the period 2010-2013.

3. The period covering the Millennium Development Goals, 2001 to 2015, demonstrated the role of economic growth and pro-poor social development policies in transforming the region's poverty landscape. This period was also marked by episodes of food, fuel, and financial and economic crises, which had significant adverse impacts on progress in reducing income poverty and other forms of deprivations, demonstrating the region's vulnerability to externals shocks. The primary focus on high economic growth had some adverse impacts, particularly in the forms of growing stresses on the environment and increasing economic and social inequalities, within as well as across countries. Success also came at the expense of unplanned urbanization, widening infrastructure gaps and institutional weaknesses, including poor governance and insufficient investment in service delivery systems. The policy lessons are clear: developing countries of the region need to pursue inclusive and sustainable development in a manner that leaves no one behind and to contribute to the creation of more prosperous and peaceful societies. Moreover, more effective coordination is needed at the regional and global levels to combat supranational factors that pose a threat to poverty eradication efforts. This includes, in particular, the need to sustain peace and prevent conflict within and between countries.

4. Although the Asia-Pacific region experienced a spectacular decline in income poverty, performance was uneven, with several countries, including least developed countries, landlocked developing countries and small island developing States (grouped together as countries with special needs), making slow progress in reducing poverty levels and reaching other development targets; they remain the poorest and most vulnerable countries in the region. In several of these economies, economic, social, environmental, ecological and political vulnerabilities have increased.

5. Consequently, there is a need to revisit development strategies to match the specific development challenges that countries with special needs face, taking into account that their underlying economic structure and resource endowments are different and that they face particular geographic and other constraints.

6. For instance, while high economic growth supported by simple, linear income-generating activities for the poor and vulnerable groups proved quite effective in lifting millions out of poverty in the past, this may no longer be

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effective in many countries with special needs due to low financial and human resources and to increased environmental challenges, as well as growing inequalities and State failure in redistributing the gains of economic growth. Putting countries with special needs on a self-sustaining development path and preventing people from slipping back into poverty require more than relying on low-skilled labour and exports of unprocessed natural resources, as many have done in the past.

7. The Asia-Pacific region is home to 36 countries with special needs: 12 least developed countries[1] (4 of which are also landlocked), 12 landlocked developing countries[2] and 21 countries and economies that are small island developing States[3] (4 of which are least developed countries). These countries are home to some 400 million people. Characterized by remoteness from developed markets and high transport and transit costs, these countries and areas vary in size, resource endowment, and the degree of access to technology and finance for development. They remain acutely vulnerable to external shocks, including natural disasters and the consequences of climate change, which in the past have wiped out decades-old development gains. No effective international support systems exist to protect countries with special needs from these shocks, which are often transboundary in nature.

8. In the 2030 Agenda for Sustainable Development, high priority is accorded to eradicating poverty in all its forms. Similarly, the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action) is designed to address the least developed countries' specific needs and to help them to eradicate poverty and hunger and to improve their peoples' standard of living. One of the objectives contained in the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 is to reduce poverty in the landlocked developing countries and promote their integration into the regional and global economy. In the SIDS Accelerated Modalities of Action (SAMOA) Pathway (Samoa Pathway) the vulnerabilities of the small island developing States are highlighted, and it contains accelerated modalities of action for reducing those vulnerabilities. Significant complementarities and synergies exist between these four global mandates, making them very useful frameworks for national action and regional and international cooperation to address a range of development issues, including eradicating poverty and achieving internationally agreed development goals in a systematic and coherent manner.[4]

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[1] Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, the Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu.

[2] Afghanistan, Armenia, Azerbaijan, Bhutan, Kazakhstan, Kyrgyzstan, the Lao People's Democratic Republic, Mongolia, Nepal, Tajikistan, Turkmenistan and Uzbekistan.

[3] American Samoa, Cook Islands, Fiji, French Polynesia, Guam, Kiribati, Maldives, Marshall Islands, the Federated States of Micronesia, Nauru, New Caledonia, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Samoa, Singapore, Solomon Islands, Tonga, Tuvalu and Vanuatu.

[4] *Asia-Pacific Countries with Special Needs Development Report 2017: Investing in Infrastructure for an Inclusive and Sustainable Future* (United Nations publication, Sales No. E.17.II.F.9). Available from www.unescap.org/sites/default/files/publications/Final%20%28CSN%29%206%20June.pdf.

II. Progress on Sustainable Development Goal 1: end poverty in all its forms everywhere

9. Sustainable Development Goal 1 and its associated targets call for ending poverty, including extreme poverty, by 2030. The most recent regional review of the 2030 Agenda, published jointly by the Economic and Social Commission for Asia and the Pacific (ESCAP), the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP),[5] and the global progress report on the Sustainable Development Goals published by the World Bank[6] indicate that regional and global poverty rates have continued to decline. However, the overall situation remains one of mixed achievement and missed opportunities, calling for urgent policy action in several critical areas.

10. Globally, the incidence of extreme poverty as measured by $1.90 per day declined from 1.84 billion people in 1990 to 766 million in 2015.[6] The most spectacular improvement was in East Asia and the Pacific, which saw the incidence of poverty decline from 966 million people in 1990 (60 per cent of the population of these subregions) to 71 million (4 per cent), followed by South Asia, from 505 million people in 1990 (45 per cent) to 256 million in 2013 (15 per cent). Bangladesh, China and India are countries with large populations that have experienced the most notable improvements.

11. Estimates released in 2015 indicate that extreme income poverty in the Asia-Pacific region declined from close to 1.7 billion people in 1990 to approximately 569 million in 2012. Thus, the proportion of people living in extreme poverty in the region declined from 53 to 14 per cent.[7] A more recent report[5] indicates that, between 2010 and 2013, the incidence of extreme poverty fell to 10.3 per cent, with some 400 million people still living in poverty in the Asia-Pacific region. Although this decline in income poverty has generally been accompanied by progress in several other non-income dimensions of poverty, at least 931 million people are still impoverished when using the multidimensional poverty measurement.[8] People living in extreme poverty are predominantly young, living in rural areas and engaged in agricultural employment/activities.

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[5] ESCAP, ADB and UNDP, *Asia-Pacific Sustainable Development Goals Outlook*, (Bangkok, 2017). Available from www.adb.org/sites/default/files/publication/232871/asia-pacific-sdgoutlook-2017.pdf.

[6] World Bank, *Atlas of Sustainable Development Goals 2017: From World Development Indicators* (Washington, D.C., 2017).

[7] ESCAP, ADB and UNDP, *Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific - Asia-Pacific Regional MDGs Report 2014/15* (Bangkok, 2015). Available from www.adb.org/sites/default/files/publication/159951/asia-pacific-regional-mdg-report-2014-15.pdf.

[8] See Department of Economic and Social Affairs, "Multidimensional poverty", Development Issues, No. 3 (New York, 2015), for a discussion of the concept and its measurement. UNDP adopted a counting method in 2010, assisted by the Oxford Poverty and Human Development Initiative, to replace its Human Poverty Index with the global Multidimensional Poverty Index. There are instances where multidimensional and income poverty rates coincide; in others they may diverge. The Millennium Development Goals and the Sustainable Development Goals are examples of approaches using the concept of multidimensional poverty.

12. Of the total 400 million people living on less than $1.90 a day between 2010 and 2013, 77.2 per cent were in South and South-West Asia, which includes several least developed countries and landlocked developing countries, namely Afghanistan, Bangladesh, Bhutan and Nepal. The North and Central Asia subregion, which is home to most of the landlocked developing countries in the region, accounted for 5.4 per cent of that population,[9] and the Pacific subregion accounted for some 0.7 per cent, which is an increase from 0.2 per cent for the period 2000-2004.

13. In terms of individual performance, the rates of decline in income poverty vary across least developed countries and landlocked developing countries, with the bulk of the poor living in the least developed countries. Nepal reduced its incidence of poverty from 45 per cent in the period 2000-2004 to approximately 15 per cent in 2010-2013, a significant achievement for a least developed country that was severely affected by the 2007-2008 food-fuel crises and the global economic recession that started in 2008. Bangladesh experienced a decline in its poverty incidence from approximately 34 to 18 per cent during the same period. Despite an adverse external environment, the country has managed to maintain its growth at an average of 6.5 per cent with sustained garment exports and steadily increasing remittance flows, both of which had a beneficial impact on poverty reduction by providing employment to first-time young rural migrants, many of whom were women. Targeted social protection measures and increased agricultural productivity also contributed to poverty reduction in Bangladesh. The Lao People's Democratic Republic was equally successful in reducing poverty from 25 per cent to close to 17 per cent. High and sustained economic growth, led by judicious use of its hydropower, increased investment in agriculture, significantly increased investment in infrastructure, the establishment of several special economic zones, the promotion of trade-promoting foreign direct investment and the generation of employment centred around small and medium-sized enterprises, all contributed to its record in poverty eradication. Among the least developed countries, Cambodia experienced the steepest decline in poverty, with its incidence going down from approximately 18 to 2 per cent during the same period, largely supported by agricultural reforms and concomitant productivity gains, the development of an export-oriented labour-intensive garments sector and increased investments in health, education and sanitation. A growing tourist industry also contributed to the rapid decline in extreme poverty.

14. Among the Central Asian landlocked developing countries, the incidence of extreme poverty increased in Tajikistan from 10.4 per cent in 2007 to 19.5 per cent in 2014 as it grappled with internal economic and social challenges and faced increasing unemployment as remittances fell in the wake of the economic crisis and the collapse in commodity prices. Kyrgyzstan managed to reduce its poverty from approximately 15 per cent in 2005 to 1.3 per cent in 2014, a significant achievement for a non-oil and non-gas producing country. Kazakhstan (10.5 per cent in 2000 to 0.04 per cent in 2013) and Mongolia (from 10.6 per cent in 2002 to 0.2 per cent in 2014), major oil, gas and mineral exporting countries, have managed to virtually eliminate extreme poverty but face significant macroeconomic challenges with the collapse of commodity prices. Both countries need to carry out reforms to boost growth and maintain their performance in reducing extreme poverty.

[9] ESCAP, ADB and UNDP, *Eradicating Poverty and Promoting Prosperity in a Changing Asia-Pacific* (Bangkok, 2017). Available from http://sdgasiapacific.net/download/AP_SDG_Thematic-Report_2017.pdf.

15. However, overall progress in reducing income poverty masks glaring disparities between rural and urban areas and between different income and social groups, genders, and ethnic groups, with the effect of keeping many of the developing countries of the region exposed to perilous economic and social fault lines.

16. The types of inequality within the countries with special needs are various and concern inequality of wealth/income, of access (to education, health care, labour market and decent jobs, for example) and of rights, the latter being a major factor contributing to social tensions. For example, among the Asia-Pacific countries with special needs, three States belong to the group of 20 countries in which gender inequality is the highest in the world.[10] Moreover, access to decent jobs remains limited. Three countries with special needs belong to the 20 economies with the highest poverty rate among the working population.[11]

III. Asia-Pacific experiences in eradicating poverty: key policy issues and responses

17. The Asia-Pacific region has, in recent decades, relied on economic growth as the principal tool for reducing extreme poverty. As global as well as regional growth slows down,[12] developing countries (particularly countries with special needs) can no longer rely solely on traditional patterns of economic growth to combat extreme poverty and promote inclusive and sustainable development. Rather, growth and development policies and strategies need to be much more inclusive, nuanced and comprehensive and must take into account rapidly changing internal and external socioeconomic conditions and imperatives.

18. Growing inequalities in income and access to opportunities need to be addressed urgently so that no one is left behind. Urban and rural disparities need to be reduced and more attention should be paid to improving agricultural productivity and providing increased non-agriculture employment opportunities. Unplanned rural to urban migration, mostly for better economic and social opportunities, has led to rapid urbanization in most of the developing countries, including the countries with special needs, resulting in urban congestion, severe stress on urban services, such as water, sanitation and decent and affordable housing, and an increase in urban extreme poverty, in several instances.

19. Resource mobilization strategies and the use of resources need careful reconsideration, particularly as external conditions for traditional forms of development assistance, particularly official development assistance (ODA) and private capital flows, such as foreign direct investments and worker remittances, become increasingly uncertain. While countries with special needs need to identify new and innovative sources of financing, they also need to ensure that they make more effective use of existing resources, particularly of ODA and other forms of bilateral, regional and multilateral resource flows.

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[10] UNDP, Gender inequality index 2015. Available from http://hdr.undp.org/en/indicators/68606.

[11] International Labour Organization, Sustainable Development Goal labour market indicators. Available from www.ilo.org/ilostat/ (accessed 15 August 2017).

[12] See *Economic and Social Survey of Asia and the Pacific 2017: Governance and Fiscal Management* (United Nations publication, Sales No. E.17.II.F.8) for a comprehensive discussion of the changing growth scenario in the region and the policy responses required. Available from www.unescap.org/publications/economic-and-social-survey-asia-and-pacific-2017.

20. Fiscal resources need to be deployed to meet investment gaps and to finance the development of inclusive and sustainable infrastructure, education, health, sanitation, urban renewal and institutional capacity development.

A. National policy context

21. Reducing poverty requires addressing a host of national and external challenges. Nationally, efforts must be made to ensure that countries address rising levels of inequality and low levels of social protection, combat food insecurity, close infrastructure gaps, strengthen institutions and governance, and address the adverse impacts of climate change, to which countries with special needs are very vulnerable.

1. Reducing inequalities

22. Levels of income inequality, as measured by the Gini index, have increased in many countries with increasing per capita incomes, particularly in major economies of the region.[13] To address such unintended consequences of high income growth, compensating investments in health, education, housing, infrastructure and livelihood opportunities for the poor are needed through government policies that make the growth process more inclusive so that benefits of growth can be shared more equally. There is evidence to suggest that poverty and other deprivations can be reduced more quickly if inequality can also be reduced, or at least held constant.[14]

23. One of the most effective ways to reduce inequalities and disparities is to promote the development of sectors and activities where the poor and the vulnerable live and work. In most of the countries with special needs, this requires that economic growth centre around agricultural development, the promotion of labour intensive manufacturing activities, particularly by small and medium-sized enterprises, and upscaling the informal sector. Due consideration should also be paid to the sustainable use of natural resources and biodiversity while promoting agricultural development, small and medium-sized enterprises and informal sector activities upon which the poor greatly depend for their livelihood.

24. Women, girls, the poor living in remote areas, youth and older persons are some of the vulnerable groups that need special policy attention. Undefined property rights and improper application or absence of inheritance rights also contribute to their marginalization. Asset formation, skills development, improved access to public services, such as basic health and education, and non-discriminatory access to factor markets, including microcredit, can expand their opportunities to participate in markets and enhance their capabilities to benefit from the economic growth process.

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[13] *Economic and Social Survey of Asia and the Pacific 2016: Nurturing Productivity for Inclusive Growth and Sustainable Development* (United Nations publication, Sales No. E.16.II.F.10). Available from www.unescap.org/sites/default/files/Economic%20and%20Social%20Survey%20of%20Asia%20and%20the%20Pacific%202016_0.pdf.

[14] See *Promoting the Millennium Development Goals in Asia and the Pacific* (United Nations publication, Sales No. E.03.II.F.29) for one of the earliest attempts by ESCAP and UNDP to empirically establish whether it was possible to follow a strategy that would simultaneously boost growth, reduce poverty and avoid increases in inequality.

2. Combating food insecurity, hunger and malnutrition

25. Poor households are particularly vulnerable to food insecurity, hunger and malnutrition. Food insecurity is one of the most serious outcomes of extreme poverty and manifests itself in hunger and malnutrition. The rate of reduction in undernourishment in the region slowed during the 2010-2015 period; the pace of hunger reduction was much slower in South and South-West Asia than in other subregions. Approximately 300 million people were still affected by hunger in 2016.[5] The prevalence of undernourishment in most countries with special needs was quite high in 2012-2014, with several of those countries reporting prevalence rates ranging from 32.3 to 21.8 per cent.[15]

26. The key to combating food insecurity, hunger and malnutrition in countries with special needs is the stable supply of nutritious and safe food at prices the poor can afford and at times and places they need it. A productive agriculture sector supported by efficient extension services, rural roads and transport services and properly functioning supply chains is also critical to ensuring food security to the poor and to vulnerable groups.

3. Increasing social protection

27. Countries with special needs are increasingly recognizing the development role of social security in promoting growth and equity. A broader approach to social protection has replaced earlier approaches that considered social safety nets as short-term and ad-hoc response to economic, financial and disaster-related crises and shocks. Social protection in the forms of universal access to affordable health care, universal free primary and secondary education, unemployment benefits, minimum wages, old age pension schemes, benefits for people with disabilities, widows' allowances, cash transfers, microfinance programmes and support for lactating mothers and newborn babies can form important components in a country's poverty reduction strategy as they prevent people from falling back into poverty in the aftermath of external shocks. Such measures can contribute to raising labour productivity, promoting labour mobility and creating opportunities for risk-taking and boosting domestic demand by stimulating consumption away from precautionary savings. There is also evidence to suggest that countries which spend a higher proportion on social protection tend to have a lower incidence of income poverty.[12] However, social protection programmes cover few poor people.[6] While at least 20 per cent of benefits should reach the lowest quantile to make social protection pro-poor, in many countries the richest quantile appropriate a much higher share of social protection benefits than the lowest quantile.

28. Reflecting a general lack of fiscal space, in many countries with special needs, most government expenditures, as a percentage of spending on social protection programmes, fall below the average for the region and are among the lowest in the region.[16] In many instances, social protection schemes are not adequately funded and have not been sustained over time. Many countries with special needs also lack uniform and coherent institutional mechanisms and

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[15] *Asia-Pacific Countries with Special Needs Development Report 2015: Building Productive Capacities to Overcome Structural Challenges* (United Nations publication, Sales No. E.15.II.F.9). Available from www.unescap.org/sites/default/files/publications/CSN-Report-2015.pdf.

[16] *Achieving the Millennium Development Goals in an Era of Global Uncertainty: Asia-Pacific Regional Report 2009/10* (United Nations publication, Sales No. E.10.II.F.10). Available from www.unescap.org/sites/default/files/RegionalMDGReport_2009-2010.pdf.

frameworks, giving rise to fragmented and often unconnected social protection schemes. Financial leakages and poor governance add to high costs in maintaining these schemes. Poor targeting fails to benefit the intended beneficiaries, leading to erosion in political and social support for social protection in otherwise highly deserving instances.

4. Closing infrastructure gaps

29. Persistent, and in many instances severe, infrastructure gaps have held back inclusive growth and sustainable development in countries with special needs with serious and far-reaching adverse impacts on the poor and on efforts to reduce their vulnerabilities, as infrastructure helps to generate a wide range of economic, social and environmental benefits, including for the poor, and promotes regional integration by better harnessing trade and investment opportunities.[17] Infrastructure is needed in order to deliver services to people, connect markets, and exploit economic and social opportunities.

30. Roads, bridges, railways and waterways are important for moving people, raw materials and production inputs, marketing finished products and providing services. Energy, in the form of electricity and natural gas, is vital to keep manufacturing factories and rural enterprises operating. Information and communications technologies improve productivity and create new economic opportunities. Education, health and sanitation facilities are critical to promoting inclusive growth and development, particularly in empowering the poor and vulnerable groups. In each of these areas, most countries with special needs face considerable infrastructure deficits, often compounded further by the lack of investment and skilled human resources as well as institutional weaknesses.

31. As infrastructure is multidimensional in its characteristics, ESCAP has created the Access to Physical Infrastructure Index, which is a composite index.[18] It shows that all three groups of countries with special needs have significantly lower levels of infrastructure development than other developing countries in the region. Among the countries with special needs, least developed countries have the lowest level of infrastructure development, while landlocked developing countries have the highest of all three groups.

32. The provision of infrastructure is positively correlated with increases in gross domestic product (GDP) per capita. In one scenario, countries with special needs would be able to increase their national income by $130 billion if they increased their level of infrastructure development by 2030 to be on par with that of other developing countries in the region today. Empirical evidence also suggests that improvements to infrastructure in countries with special needs contribute positively to increasing human development by providing access to services such as health, education and sanitation and distributing their benefits much more equitably. Robust policies are therefore needed to take advantage of these opportunities and benefits by stepping up investments in infrastructure, introducing required structural reforms, improving institutional capacity, and fostering managerial and technical skills to formulate and implement large infrastructure projects on a timely and efficient basis and thereby speed up the elimination of the infrastructure gaps which are presently constraining the growth prospects of the countries with special needs.

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[17] See *Asia-Pacific Countries with Special Needs Development Report 2017* for a comprehensive and up-to-date discussion on the state of and access to infrastructure in the countries with special needs as well as on policy options that can be pursued by their Governments and other stakeholders.

[18] See *Asia-Pacific Countries with Special Needs Development Report 2017*.

33. The countries with special needs have a wide range of financing options available to them to meet the investment requirements of their infrastructure needs. If they position themselves well in terms of identifying bankable projects, putting in place incentive structures and ensuring better governance, accessing investment resources for infrastructure development will not be as challenging as was the case even a decade ago. Yet, estimates offered for 26 countries indicate that countries with special needs would need to spend an average of 8.3 per cent of their GDP per annum, amounting to $48 billion in 2010 prices, to provide universal access to electricity, water and sanitation to meet additional demand for new infrastructure and to maintain existing infrastructure. Least developed countries, with an investment requirement of $32 billion, representing 10.7 per cent of their GDP, have the largest resource need. Although a wide variety of financing sources and modalities are available to the countries with special needs, including domestic public finance, public-private partnerships, private sector participation and official development assistance, the least developed countries and small island developing States in particular will not be able to bridge the resource gap without significant external assistance. In this regard, and in addition to traditional multilateral financing institutions such as the World Bank and the Asian Development Bank and bilateral ODA, several international and regional financial institutions have been established in recent years that can provide resources for financing infrastructure development. These include the Asian Infrastructure Investment Bank, the Association of Southeast Asian Nations Infrastructure Fund, the New Development Bank, Pacific Region Infrastructure Facility and the Green Climate Fund under the United Nations Framework Convention on Climate Change.

5. Strengthening institutions and service delivery systems

34. Inefficient and poorly managed institutions give rise to high transaction costs which in turn reduce prospects for inclusive growth and sustainable development. Poor and vulnerable groups suffer most from inefficient institutions and service delivery systems, making it difficult to eradicate income poverty in any meaningful way. Institutions and service delivery systems need to be made efficient and transparent. They must also allow for the incorporation of the views and the interests of the poor, women, youth, older persons and other vulnerable groups, including those facing discrimination and exclusion. This process can give them a sense of empowerment and ownership, turning them into agents for change and development.

35. Governance can operate at two levels: national and subnational.[19] At the national level, this means cutting red tape, getting rid of obsolete laws, streamlining rules and regulations, ensuring transparency and accountability, and making institutions user friendly and service oriented. At the subnational level, governments should decentralize power, by giving authority and resources to subnational and local institutions so that people of all backgrounds can directly participate in and voice their interests with regard to service delivery systems. When subnational entities are given this authority, services to the poor and other intended beneficiaries can be delivered with fewer costs and at the times and locations needed by local communities. Central Governments will have to retain the primary responsibility for eliminating poverty, hunger and deprivation but can use decentralization and other

[19] See *A Future Within Reach 2008: Regional Partnerships for the Millennium Development Goals in Asia and the Pacific* (United Nations publication, Sales No. E.08.II.F.15) for a discussion on this topic and related points in the context of achieving the Millennium Development Goals. Available from www.unescap.org/sites/default/files/MDGReport2008.pdf.

measures to deliver basic services to the poor and involve the private sector, non-governmental organizations, civil society organizations and other entities as their partners in discharging their responsibilities.

36. Poor governance, weak institutions and inefficient service delivery systems prevent the eradication of poverty and exacerbate inequality. Robust institutions and good governance can ensure increased effectiveness in public spending on basic services such as health, education, water and sanitation and produce better health and education outcomes.[20] There is also evidence that good governance is positively correlated with domestic credit being extended to the private sector, gender equality, and environmental performance, all with strong implications for reducing poverty and inequality. Some of the challenges faced by the countries with special needs in ensuring good governance and efficient institutions include the lack of political will, scarcity of skilled and motivated human resources, financial constraints, bureaucratic inertia, conflicting mandates and blurred responsibilities, and the lack of coordination and cooperation between institutions tasked with delivering services.

6. Improving resilience to climate change

37. Climate change consequences have the most adverse impacts on the poor and vulnerable groups. Climate change may erode the development gains achieved in recent decades and may add another 100 million people to the ranks of those living in extreme poverty by 2030.[21] Climate change consequences are felt everywhere in the countries with special needs. This is particularly the case for small island developing States and countries such as Bangladesh, Mongolia, Myanmar and Nepal, which are at the forefront of experiencing some of its impacts. Rising sea levels, desertification, floods and storms, and extreme weather conditions pose significant threats to food security, livelihood opportunities, agriculture, infrastructure, water supplies, health and ecosystems.

38. Climate-informed decisions and measures can prevent or mitigate the adverse impacts of climate change. Sustainable Development Goal 13 sets targets and indicators for climate change adaptation and strengthening resilience. Several countries with special needs have ratified the Paris Agreement and adopted national disaster risk reduction strategies. Many have either prepared or are in the process of preparing national adaptation plans. Some progress has also been made in mobilizing climate finance; the Green Climate Fund received pledges of $10.3 billion by October 2016. Bangladesh has established a climate adaptation fund out of its own resources.

39. Apart from integrating climate change adaptation into national development strategies and budgeting processes, the need to sensitize people and communities about the causes and consequences of climate change is urgent. Sensitization will increase the adaptive capacities of local communities to deal with climate change consequences and increase their resilience. There is also a need to increase the sharing of knowledge and experiences on climate adaptation and resilience building between countries of the region, as many climate change impacts are cross border in nature. As most of the countries with special needs are disproportionately affected by climate change and have the least capacity to deal with its effects, international support to those countries should be strengthened based on common but differentiated responsibilities.

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[20] *Economic and Social Survey of Asia and the Pacific 2017.*

[21] World Bank, *Atlas of Sustainable Development Goals 2017.*

B. External policy context: coping with macroeconomic shocks

40. Periodic financial and economic crises have become part of the global growth and development scenario. Since the 1997 Asian financial crisis, countries with special needs, together with other developing countries in the region, have experienced three more episodes of external crises: the food-fuel crisis of 2006-2007, the global financial and economic crisis of 2008-2009, and the collapse in commodity prices in 2014-2015. All of these have negatively affected the countries with special needs to varying degrees, highlighting the acute vulnerability of these countries to external shocks.

41. These crises resulted in widespread job and income losses in most of the least developed countries and landlocked developing countries as exports fell and migrant labour returned home. Unemployment rose sharply in many least developed countries and landlocked developing countries, forcing millions into extreme poverty in the absence of robust and sustained national social protection policies and programmes. Most of the least developed countries have low public expenditures on social protection, thereby creating a huge challenge as millions of people fell back into extreme poverty. In the publication *Achieving the Millennium Development Goals in an Era of Global Uncertainty*, ESCAP, ADB and UNDP estimated that an additional 21 million people fell below the poverty line of $1.25 per day – and 25 million based on the $2 per day poverty line – in the wake of the financial and economic crisis that hit the region in 2008 and 2009.

42. External shocks such as these also force an increasing number of people, particularly the young and low-skilled men and women, to fall back on informal and insecure employment, increasing their vulnerability and income poverty. Even when economic growth returns to a pre-crisis level, employment and real wages tend to recover with a lag, further compounding poverty, inequality and deprivation at various levels.

43. As external financial and economic shocks are very much a part of market-based transactions and beyond the ability of the countries with special needs to influence and control, counter-cyclical fiscal and monetary policies supported by social protection schemes are important to cushion the adverse impact of such shocks on the poor and vulnerable groups. The success of such policies greatly depends on the fiscal space of individual countries with special needs, highlighting the need for prudent management of fiscal resources when times are good.

44. In the long to medium term, growth and development strategies must also factor in the possibility of such shocks by promoting economic diversification, productive capacity development, and productivity-enhancing growth and skills formation. Institutional capacity development, better data and more reliable information can also improve decision-making by Governments when they face or expect to face such external shocks. The extent of vulnerability to external shocks also depends on the financial, trade and investment exposure of the countries with special needs. In general, these countries should strive to diversify their export basket as well as export destinations and opt for concessional ODA and non-debt creating financial commitments.

C. Financing poverty eradication

45. Eliminating poverty in all its forms and dimensions and empowering vulnerable groups will require considerable financial resources. While prospects have brightened for mobilizing and accessing financial resources for sustainable development, considerable efforts are needed to explore and

evaluate all possible sources of finance and combine those in judicious ways to maximize their returns.

46. Domestic public resources need to play a dominant role in meeting the development financing needs of countries with special needs. Yet, financing needs are rising, ranging from the provision of basic services to infrastructure development to adapting to climate change. The record of countries with special needs on mobilizing domestic resources indicates that there is room for significant improvement, as shown, for example, by low tax revenue collections. One reason is that while poor households in countries with special needs generally fall below the tax threshold, high income groups are generally reluctant to pay taxes and tax evasion and avoidance are often rampant. While strengthening tax administrations and widening the tax net, Governments could consider progressively introducing a general system of taxation or value added taxes. Also, additional non-tax revenues could be generated through user charges, fees and licenses, particularly as countries with special needs undergo rapid urbanization, which could be used to strengthen development expenditures.

47. Reorienting public expenditures away from administrative services and across-the-board subsidies, including expenditures to loss-making State enterprises, could generate additional resources for poverty reduction efforts. Green taxes on ecologically unfriendly production and distribution processes can raise resources and discourage pursuit of such activities.

48. For several countries with special needs, ODA will therefore continue to be an important source of finance for physical infrastructure development and the provision of basic services such as health, education, water and sanitation. ODA is also important for directly financing anti-poverty policies and programmes, promoting the efficient and sustainable use of environmental resources, funding climate change adaptation policies and options, and improving urban services. On average, countries with special needs received $5 billion in ODA annually from multilateral agencies between 2010 and 2014, with least developed countries and small island developing States receiving 1.4 per cent and 1.2 per cent of their GDP respectively. In terms of sectoral distribution of these flows, social infrastructure attracted 49.6 per cent, economic infrastructure 23.6 per cent and other areas 26.7 per cent. Although ODA from multilateral sources constitutes quite small proportions of GDP, they help to catalyse inflows of resources from other sources.

49. Latest estimates indicate that globally, remittances to developing countries declined for two consecutive years to $429 billion in 2016; that was a 2.4 per cent decrease compared to 2015.[22] Regionally, remittances declined to $110.1 billion in 2016, compared to $117.6 billion in 2015. Low oil prices, the weak economic performance of resource-rich economies and the continued subdued growth of the Russian economy were principally responsible for the decline. Among the countries with special needs, Bangladesh, Nepal and several Central Asian landlocked developing countries experienced declining remittances. However, it is expected that remittances to the region will resume their historical upward trend in 2017.

[22] World Bank Group, "Migration and remittances: recent developments and outlook – special topic: global compact on migration", Migration and Development Brief 27 (Washington, D.C., World Bank, 2017). Available from http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf.

50. Despite this volatility, remittances remain an important resource for development for the countries with special needs to support their balances of payments position; they also remain an important source of income for many poor and middle-income groups. Remittances provide a critical source of income and increased consumption in rural and poor households and help them meet education and health-care needs, thus playing a key role in alleviating poverty and fostering human capital formation. In many instances, remittances support the establishment of micro enterprises in rural areas and urban townships, creating employment opportunities for the poor.

51. To strengthen remittances, the Governments of countries with special needs should pay increased attention to skills formation among migrating populations, reduce migration costs and work proactively with labour-importing countries to reduce remittance transfer costs.

52. Inclusive finance is a critical element of financing sustainable development and eradicating poverty. Banks and other financial institutions should go beyond their traditional functions and extend their services to a broader range of population groups, including women. In many countries with special needs, they have successfully done so and brought an increasing number of poor and vulnerable households into their credit operations by setting up branchless mobile services. They have also used local agents and postal networks to deliver financial services.

53. While concerns remain about some aspects of inclusive finance, including the microfinance institutions working outside the formal regulatory framework and possibly contributing to increased household debt in poor families, Governments can help these institutions to build on their successes and become active agents for change and transformation.

IV. Revisiting the nature of economic growth and sustainable development

54. Economic growth and sustainable development strategies employed by the countries with special needs rely on increased regional and global economic integration through finance, trade and investment, supported by an ample supply of inexpensive, low-skilled labour and reliance on the export of oil, natural gas and minerals by resource-rich countries. With a changing external environment and mounting competitive pressures, countries with special needs can no longer depend on inexpensive labour and exports of natural resources to sustain their growth at the pace needed to eradicate extreme poverty and create employment for their expanding labour force. The increasing automation and use of artificial intelligence in the manufacturing and services sectors in developed countries pose fresh challenges for the export of manufactured goods by countries with special needs.

55. Economic growth in many least developed countries has fallen below the 7 per cent growth target envisioned in the Istanbul Programme of Action, with a median rate of 5 per cent. This is not sufficient to eradicate extreme poverty and bring about structural change, a fundamental requirement for reinvigorating job opportunities.[20] Slower economic growth adversely affects job creation and increases to real wages, two critical elements in reducing poverty in labour-abundant least developed countries and landlocked developing countries.

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56. Future economic growth and sustainable development paradigms need to be firmly anchored in productivity-enhancing growth, productive capacity development, increased investments in education, health, water, sanitation, housing, skills formation at varied levels, and infrastructure development. Resource-rich least developed countries and landlocked developing countries need to move away from exports of natural resources and adopt effective policies and strategies to diversify into more value added manufacturing activities with strong backward and forward linkages within their domestic economies.

57. To increase productivity in the countries with special needs, wide-ranging structural reforms that involve labour and capital markets as well as institutional frameworks governing these markets are needed. Productivity gains can be achieved by improving the technical efficiency of markets and the functioning of institutional structures. Alternatively, such productivity gains can be achieved by removing impediments to resource allocation.[20]

58. Many countries with special needs have already undertaken wide-ranging reforms, but managing the reform process has proven to be particularly challenging in the absence of improved policy coherence and improved coordination between government agencies and institutions. Implementation bottlenecks and resistance from vested interest groups have impeded the process in many countries with special needs. Structural reforms aimed at raising productivity are also difficult in situations of rising inequality, widening disparities and capital market imperfections, particularly when access to financial resources are constrained by high collateral requirements.

59. There is an urgent need to enhance the quality of growth and sustainable development by making them pro-poor and inclusive so that the benefits of growth percolate to all segments of society. This would essentially mean pursuing a pattern of development that favours employment generation for the poor, with growth focused on sectors or economic activities where the poor are mostly engaged. But in the absence of comprehensive skills development opportunities, including access to health and education and minimum wages, such strategies can trap the poor and vulnerable groups in low-wage, low productivity employment with little or no prospects for escaping from poverty, which in extreme situations can become intergenerational.

60. Countries with special needs by and large have continued to follow highly polluting and wasteful industrial and agricultural production processes. Consequently, their environmental resources – land, water and air – are under severe stress. Excessive use of pesticides and chemical fertilizers has degraded the quality and productivity of their agricultural land and has led to significantly increased levels of water contamination, adversely affecting livelihood opportunities of the poor and vulnerable groups. Untreated industrial waste has destroyed rivers and bodies of water in least developed countries such as Bangladesh and Nepal and pose great environmental threats to people and communities that depend on them for employment and income.

61. Urban pollution due to continued use of carbon-emitting energy and transport systems, inefficient waste management systems, poorly maintained water and sewerage facilities, to name a few, have all given rise to significant economic losses and have contributed to significant environmental and social development challenges. There is therefore an urgent need to move away from environmentally unsound manufacturing and agricultural production systems and processes.

V. The way forward

62. Reducing poverty in all its dimensions is the key challenge the countries with special needs face, and success in eradicating poverty will largely determine global success in achieving the Sustainable Development Goals. Countries with special needs face several challenges in their efforts to reduce poverty. They require greater international support in the forms of ODA, private capital flows, infrastructure development, beneficial participation in international trade and investment, and good governance and institutional capacity development, as envisaged in the 2030 Agenda, the Istanbul Programme of Action, the Vienna Programme of Action and the Samoa Pathway.

63. It is important to recognize that the development landscape is changing and that traditional approaches which worked well in the past may not do so in the present context. While economic growth remains an important instrument for eradicating poverty and supporting the pursuit of the 2030 Agenda, there is a need to rethink development strategies. Economic growth needs to be pro-poor, sustainable and inclusive, centred on productivity-enhancing policies and strategies in which skilled human resources, structural reforms and good governance underpin all development efforts. Importantly, reducing poverty is more than just ensuring sustained economic growth. It is about tackling social exclusion. Supportive social protection measures, together with a host of other efforts, are thus needed to complement economic policies.

64. For this, robust institutions, the rule of law and a strong and effective State are needed. Many of the countries with special needs are considered fragile States due to high levels of domestic and/or regional instability. This fragility is an important factor when addressing economic, social and environmental challenges, which have adverse effects on poverty eradication efforts.

65. Countries with special needs require considerable financial resources to eradicate poverty. Institutional capacity development is required to achieve better development results, particularly in delivering services to the poor and vulnerable groups efficiently and equitably. Greater attention must also be given to adapting to climate change and strengthening resilience, particularly in those countries with special needs that face existential threats. Member States must pay further attention to multidimensional approaches to poverty eradication and promoting prosperity for all.

66. Examples of issues that the Committee on Macroeconomic Policy, Poverty Reduction and Financing for Development may wish to consider while focusing on the challenge of eradicating poverty in the region, particularly in countries with special needs, include the following:

(a) Keeping in view the issues highlighted in the present document, does the analytical work of the secretariat help member States to better understand the nature of the challenge of poverty reduction? How, and along which lines can the analysis be developed further?

(b) On which areas and/or policies should the secretariat focus more and analyse further in order to facilitate the efforts of member States to reduce poverty?

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